



PRESS RELEASE

Colorado Department of Law
Attorney General John W. Suthers

FOR IMMEDIATE RELEASE

February 5, 2013

CONTACT

Carolyn A. Tyler
Carolyn.Tyler@state.co.us
720-508-6553

COLORADO ATTORNEY GENERAL ANNOUNCES LAWSUIT AGAINST STANDARD & POOR'S FOR RATINGS OF MORTGAGE BACKED SECURITIES

DENVER—[Colorado Attorney General John Suthers](#) filed a lawsuit today against Standard and Poor's (S&P) in connection with the ratings that it issued on structured finance securities, including residential mortgage backed securities (RMBS) that were issued at the height of the market from 2004-2007. This lawsuit is part of a joint federal-state effort to hold those responsible for their part in the foreclosure and financial crisis. The congressionally-appointed [bipartisan Financial Crisis Inquiry Commission concluded in its final report](#) that the financial crisis "could not have happened" without ratings agencies such as S&P. Colorado's lawsuit alleges that S&P put its financial interests above its self-described objectivity and independence.

"This case is part of our [ongoing effort](#) to hold culpable parties responsible for the housing foreclosure crisis and protect the integrity of our financial system," said Suthers. "Standard & Poor's rating of structured finance securities backed by subprime mortgages was a significant factor in the crisis that occurred. Our complaint alleges that in order to protect their dominant market share, S&P executives compromised their objectivity and independence when rating these securities. Yet, S&P continues to assure the public of their complete objectivity and independence. We allege that this activity is in violation of the Colorado Consumer Protection Act."

Structured finance securities backed by subprime mortgages were at the center of the financial and foreclosure crisis. RMBS and collateral debt obligations (CDOs), derive their value from the monthly payments homeowners make on their mortgages.

The complaint alleges that S&P's made repeated public statements from 2004 – 2012 that emphasized its independence and objectivity. The complaint further alleges that investors and other market participants rely on S&P to be independent and objective when rating these complex financial investments. Many of these investors are pension funds that are required to invest in only highly rated securities. The complaint alleges that S&P adjusted its analytical models for rating RMBS and other structured finance securities to achieve the high ratings that investors needed to invest in these securities. Moreover, the complaint alleges that S&P allowed its own financial motives to influence the ratings model that it used to rate these

securities and that S&P's financial motives compromised the objectivity and independence that it presented to the public.

Further, the complaints allege that S&P's monitoring, or surveillance, of previously rated RMBS and CDOs, was also affected by revenue considerations. In particular, S&P delayed taking rating actions on impaired RMBS and continued rating new CDOs even after it determined that the security's underlying collateral was impaired, because it wanted to continue to earn lucrative fees.

The federal and state lawsuits filed today seek to restore objectivity and integrity to the ratings process. Colorado's action was filed in Denver District Court and seeks an injunction, civil penalties and disgorgement of ill-gotten profits, which may total hundreds of millions of dollars.

The United States Department of Justice filed federal claims in federal court in Los Angeles. The other states filing today include: Arizona, Arkansas, California, Delaware, the District of Columbia, Idaho, Iowa, North Carolina, Maine, Missouri, Pennsylvania, Tennessee, and Washington. Connecticut was the first state to sue S&P on these allegations in March, 2010 and is leading the multistate coalition. The States of Mississippi and Illinois filed lawsuits against S&P in 2011 and 2012, respectively, based on Connecticut's theory of the case.

S&P and its chief competitor, Moody's Investors Service, Inc. (Moody's), dominate the market for rating structured finance securities and are responsible for rating virtually all structured finance securities issued into the global capital markets. Connecticut has brought a similar lawsuit against Moody's, which is pending in state court.

###